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INTRODUCTION

The Office of Internal Audit performed an audit of Branch County FIA for the period March 1, 2003 through May 7, 2004. The objective of our audit was to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Branch County FIA had 40 full time equated positions (FTE's) at the time of our review. Branch County FIA provided assistance to an average 3,500 recipients per month in FY 2003, with total assistance payments of \$4,445,936 for the fiscal year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and accordingly, included the audit tests we deemed necessary under the circumstances. We obtained descriptions of significant systems operating at Branch County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts

Cash Disbursements

General Ledger

Modified Accrual Basis Balance Sheet

Safe and Controlled Documents

State Emergency Relief (SER)

Direct Support Services

Customer Processing

CIMS/ASSIST/LASR

Children's Protective Services

Payroll and Timekeeping

Procurement Card

EXECUTIVE SUMMARY

Based on our audit, we conclude that Branch County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. The Client Information Management System, ASSIST, and LASR system access and security need improvement to strengthen controls, as do some of the controls related to cash receipts and disbursements. With only one staff in the fiscal office, the review of warrants, verification of deposits, and reconciliation of the check signing log and the check register are important internal control functions.

LOCAL OFFICE RESPONSE

The management of Branch County FIA has reviewed all findings and recommendations included in this report. They indicated by e-mail on August 20, 2004 that they are in general agreement with the report, and have implemented corrective action for findings 5, 6, 8, and 16.

Cash Receipts

Reviewing the Disposition of Warrants

1. Branch County FIA did not have staff independent of the fiscal unit review the disposition of warrants returned/received at the Local Office. Internal controls over the disposition of returned/received warrants is improved by having staff independent of the fiscal unit review the disposition to determine if the warrants are processed as instructed by the Family Independence Specialists.

WE RECOMMEND Branch County FIA have staff independent of the fiscal unit review the disposition of warrants returned/received at the Local Office.

Recording the Disposition of Warrants on the FIA-61

2. Branch County FIA does not enter warrants that are personally returned to the Local Office on the Record and Disposition of Checks/Warrants (FIA-61).

Accounting Manual 462, page 2, requires the warrant information to be entered on the FIA-61.

WE RECOMMEND Branch County FIA record warrants that are personally returned to the Local Office on the Record and Disposition of Checks/Warrants (FIA61).

Verification of Deposits

3. Branch County FIA did not follow established procedures for verifying that funds received through the mail were deposited. The Local Office did not have staff independent of the cash receipting process verify that all of the funds received were included in a deposit.

Accounting Manual 433, page 3, requires verification that all moneys received by the cashier are included in the deposit. This is accomplished by reconciling entries on the original mail list with the receipts on the receipts edit listing and verifying the cash to be deposited is equal to the total amount of cash receipts.

Verification of the funds to be deposited with the mail list, deposit ticket and edit listing prior to depositing funds improves internal controls over the cash receipting process.

WE RECOMMEND Branch County FIA verify that all funds received by the cashier are included in the deposits as required by Accounting Manual 433.

Cash Disbursements

Emergency Services Advance Payments to Vendors

4. Branch County FIA did not always disburse Emergency Services funds to alleviate a current emergency of a customer. On September 30, 2003 advance payments totaling \$4,230.00 were made to four separate vendors. The vendors were a food bank, LP gas distributor, and two retail stores for gift certificates. The payments were not made to resolve an emergency of a customer. The payments to the food bank and LP gas distributor did not have an invoice and/or receipt from the vendor attached to the Local Payment Authorization (FIA-1291). A review of records maintained by the fiscal office indicates that funds from the advance payments were used for customer emergencies during FY04.

Program Policy Manual SER 209 does not address advance payments to vendors or the purchase of gift certificates. However, Executive Order 2003-14 imposed a moratorium for the remainder of FY03 on the purchase of supplies, materials, equipment, printing, or other products financed with state funds. Accounting Manual 414, page 1, states "An invoice and/or receipt from the vendor are required as documentation".

WE RECOMMEND Branch County FIA comply with Executive Orders that are issued to control spending.

WE also RECOMMEND Branch County FIA attach an invoice and/or receipt from the vendor that identifies the customer that the Emergency Services Funds have been disbursed for.

Authorizing Signatures on Payment Authorizations

5. Branch County FIA did not ensure that payment documents submitted to the Fiscal Office were properly authorized.

One Early Payment, thirteen State Emergency Relief Payments, and four Direct Support Services payments were signed by the staff requesting and authorizing the payment with their initials.

Accounting Manual 411, page 2, for processing Early Payments states an EP authorization must contain an original signature; copies are not acceptable. Valid signature is a minimum of first initial and last name.

This standard for an authorizing signature should be applied to all Local Office payments. Properly signed payment authorizations are required to provide assurance that payments are accurate and appropriate.

WE RECOMMEND Branch County FIA require staff requesting payments to sign all payment authorizations with an original valid signature, consisting of a first initial and last name at a minimum.

Sign-O-Meter Reconciliation

6. Branch County FIA did not reconcile the Sign-O-Meter Record to the check register on a timely basis. The reconciliations had not been performed for the two months prior to our review.

Accounting Manual 410.1, page 1, states that the purpose of the of the Sign-O-Meter Record (FIA-4711) is to ensure that no check goes through the check signer that is

not accounted for in the accounting records. This assurance is accomplished by reconciling the FIA-4711 with the check register monthly. This reconciliation must be performed by a person who does not operate the check-signing machine.

WE RECOMMEND Branch County FIA require staff to reconcile the Sign-O-Meter Record with the check register each month as required by Accounting Manual 410.1.

General Ledger

No findings in this area

Modified Accrual Basis Balance Sheet

Establishing Outstanding Accounts Receivable Files

7. Branch County FIA does not maintain a outstanding accounts receivable file for the Accounts Receivable Due from State for State Administrative Expenses. As a result it can not be determined if the State has reimbursed Branch County FIA for all reimbursable expenditures submitted for reimbursement.

Accounting Manual 402-3, page 5, states that the Local Office must establish an Outstanding Accounts Receivable file for each type of document used to record or obtain reimbursement from the State.

Establishing an Outstanding Accounts Receivable file and reconciling the documents on file with the balance recorded in the General Ledger provides assurance that all reimbursable expenditures submitted to the State have been reimbursed.

WE RECOMMEND Branch County FIA establish an Outstanding Accounts Receivable file for the Accounts Receivable Due from State for Administrative Expenses.

Safe and Controlled Documents

Inventories of Gasoline Cards and Gift Cards

8. Branch County FIA has not established inventory control over Gasoline Cards and Gift Cards purchased for customer use. The Local Office does not perform a monthly physical inventory by staff independent of the fiscal office and record the inventory on the Monthly Controlled Document Inventory and Reconciliation (FIA-4351).

Accounting Manual 403, page 1, states that locally purchased gift certificates, gasoline cards, etc. are negotiable instruments and must also be treated as controlled documents. The Monthly Controlled Document Inventory and Reconciliation (FIA-4351) must also be completed monthly for each type of item.

WE RECOMMEND Branch County FIA perform monthly physical inventories of the gasoline and gift cards and document the reconciliation on the Monthly Controlled Document Inventory and Reconciliation (FIA-4351).

State Emergency Relief

Supporting Documentation for SER Payments

9. Branch County FIA did not follow established procedures for State Emergency Relief (SER) payments submitted to the Fiscal Office for reconciliation with the FIA-849, 93(A) Issuance Report (ES-440). A review of 82 transactions on the February 2004 ES-440 Report disclosed two (2.1%) payments that did not have original

documentation attached to the Authorization Invoice (FIA-849) on file in the Fiscal Office.

Internal Control Criteria dated June 2002, page 19, requires an original invoice/bill or Fax (with vendor identification) to be attached to the FIA-849/screen print forwarded to the Fiscal Office for reconciliation to the ES-440 report. If these are not available a Documentation Record (FIA-223) with name of vendor contact, telephone number, date and time of contact and amount to resolve the emergency is to be attached to the FIA-849/screen print.

Attaching the original invoice/bill/fax for the amount to be paid to the Fiscal Office copy of the FIA-849/screen print helps to ensure that payments are accurate and appropriate.

WE RECOMMEND Branch County FIA attach the original invoice/bill/fax to the Fiscal Office copy of the Authorization Invoice (FIA-849) as required by Internal Control Criteria dated June 2002.

Direct Support Services

Vehicle Repair in Excess of Policy

10. Branch County FIA did not follow established Direct Support Services policy for the vehicle repair for one customer. In May and August 2003 \$1,147.72 was disbursed to repair this customer's vehicle, \$247.72 over the \$900.00 maximum allowed in a twelve month period.

Program Eligibility Manual Item 232, page 10, effective 5/1/03 states the cost of repairs can not exceed \$900.00 including any repairs done in the previous 12 months. The \$900.00 limitation is still in effect.

WE RECOMMEND Branch County FIA comply with Program Eligibility Manual Item 232 and limit vehicle repairs for each customer to the \$900.00 maximum allowed for a twelve-month period.

Customer Processing

No findings in this area

CIMS/ASSIST/LASR

CIMS and ASSIST Enrollment Profile/Security Agreements

11. Branch County FIA did not have current and accurate Client Information Management System (CIMS) Security Agreements (FIA-3974A) or ASSIST Enrollment Profiles (FIA-3720) and Security Agreements (FIA-3721) on file for staff who access CIMS and ASSIST.

Our review disclosed the CIMS status codes on the operator Identification Report (PF-011) for five Eligibility Specialists (ES) and Family Independence Specialists (FIS) staff did not agree with the status on the CIMS Security Agreements (FIA3974A). One ES staff had a CIMS status of “FLM” on the PF-011 and FIA-3974A. The correct status is “BUR”. One clerical staff and the Family Independence Manager (FIM) had ASSIST job types on the Monthly User Listing (VB9-554) that were not entered on the ASSIST Enrollment Profile (FIA-3720).

CIMS Security Policy requires an FIA-3974A or FIA-3720 and FIA-3721 to be prepared for all new users of CIMS and ASSIST and for all current operators each time an enrollment change is proposed.

WE RECOMMEND Branch County FIA prepare new Client Information Management System Enrollment Profile/Security Agreements (FIA-3974A) for the five staff that have a CIMS status that does not agree with the Operator Identification Report (PF-011) and the “FLM” status for the Eligibility Specialist be changed to “BUR”.

WE ALSO RECOMMEND Branch County determine the correct ASSIST job types for the clerical staff and Family Independence Manager, and prepare new ASSIST Enrollment Profiles (FIA-3720) and Security Agreements (FIA-3721) as required.

Inconsistent CIMS Status and ASSIST Job Types

12. Branch County FIA has assigned Client Information Management System (CIMS) status levels and ASSIST job types that are inconsistent with staff job responsibilities. One support staff (CPS Unit Clerk) has ASSIST job type 240 (ES) and the FIS Lead Worker has been assigned ASSIST job type 360 (RSS). The FIM has “FLM” status on CIMS and ASSIST job type 360 (RSS). Two reception and registration staff have “FLM” or “CRS” status on CIMS. One of these staff also has ASSIST job type 240 (ES).

Internal Control Criteria dated June 2002, page 65, states that if a person has the ability to assign new case numbers and register applications in ASSIST and perform the full range of file maintenance transactions on CIMS, this one person has complete control of a transaction. For FIMs and other staff assigned a status level

above inquiry on CIMS, and registration capability on ASSIST, all of their CIMS transactions appearing on the Transaction Control Report (MA-010) are to be reviewed to ensure they are proper.

Assigning staff a CIMS status or ASSIST job type that allows the staff to register and open cases does not allow for the proper separation of duties.

WE RECOMMEND Branch County FIA change the FIM's CIMS status to inquiry and remove job type 360 from the FIM and FIS Lead Workers, or have independent staff review all of their transactions that appear on the Transaction Control Report (MA-010).

WE ALSO RECOMMEND Branch County FIA change the CIMS status of the reception and registration and support staff to inquiry or "IRG" only, or have independent staff review all of their transactions that appear on the Transaction Control Report (MA-010).

Inappropriate Customized Status for the CIMS Security Coordinator

13. Branch County FIA has customized the Client Information Management System (CIMS) status of the CIMS Security Coordinator for "CNTY" (county) transactions. The "CNTY" transaction allows a CIMS operator in a dual county to change the CIMS session county code to that of another affiliated county(s) in order to perform file maintenance transactions on cases assigned to that affiliated county.

The CIMS Security Policy posted on the Office of Security and Financial Services (OSFS) web-site states "CNTY" may be added to any number of local operators and to any operator status EXCEPT to a Local Office Security Coordinator (COR).

WE RECOMMEND Branch County delete the “CNTY” (county) status from the Local Office Security Coordinator’s operator status codes.

LASR Security Access Request Local/Central Office Users (FIA-84)

14. Branch County FIA has not prepared the LASR Security Access Request Local/Central Office Users (FIA-84) for staff that have access to LASR. The FIA-84 defines the LASR access that staff are allowed, and is the basis for the User Responsibilities-County (LR-890) that is obtained from LASR. The LR-890 lists all current active users and their current responsibilities. This report is used by supervision/Management to review and compare current LASR users to on board employees.

WE RECOMMEND Branch County FIA prepare the LASR Security Access Request Local/Central office Users (FIA-84) for staff that have access to LASR.

Reconciliation of the LASR Security Officer’s Log Report (LR-853)

15. Branch County FIA did not have staff reconcile the LASR Security Officer’s Log (LR-853) report with the LASR Security Access Requests (FIA-84).

Internal Control Criteria dated June 2002, page 63, and L-letter 02-088-Systems, require a complete reconciliation of the LASR Security Officer’s Log Report (LR-853) with the LASR Security Access Requests (FIA-84).

WE RECOMMEND Branch County FIA have staff reconcile the LASR Security Officer’s Log Report (LR-853) with the LASR Security Access Request (FIA-84) as required by the Internal Control Criteria and L-Letter 02-088-Systems.

Children's Protective Services

Preparation of the Service Agreement Treatment Plan

16. Branch County FIA did not follow FIA procedures for preparing documents for substantiated children's protective services cases.

A review of twenty case records disclosed three (15%) that did not have the Service Agreement Treatment Plan documented on the Protective Services-Services Agreement (FIA-151).

CFP714-1 requires the treatment plan and service agreement to be completed for all cases, which are Category 1 or 2. The worker, in conjunction with the family, develops the agreement, which focuses on the issues identified during the assessment phase.

WE RECOMMEND Branch County FIA Children's Protective Services staff prepare the Protective Services-Services Agreement and place it in the case record.

Payroll and Timekeeping

Payroll Reconciliation

17. Branch County FIA did not reconcile the Time and Attendance Summary Report (HR-332A) with a Time and Attendance Summary Report (HR-332A) printed after the payroll had been certified on the Data Collection Distribution System (DCDS).

Internal Control Criteria dated June 2002, page 57, states that the HR-332A printed on the first Friday of a pay period for the preceding pay period, after it has been

certified and released on DCDS, be reconciled with the individual FIA-4299s (or approved alternatives).

WE RECOMMEND Branch County FIA reconcile the Certified Time and Attendance Summary Report (HR-332A) with the Time and Attendance Summary Report (HR-332A) printed after the payroll has been certified on the Data Collection Distribution System (DCDS).

Procurement Card

No findings in this area